Rinehart
WEALTH & INVESTMENT
ADVISORY

July 2016

INSIGHTS

Investment Overview

Effectively Investing in Emerging Markets

In order to benefit from the long-term secular growth in Emerging Markets ("EM"), investors must be willing and able to tolerate intermittent bouts of elevated volatility. Given the negative sentiment surrounding EM as of late, the Investment Team thought it prudent to give our current thoughts and perspective on EM by putting the recent performance volatility in historical context, highlighting the difficult macroeconomic backdrop currently affecting EM, identifying the long-term tailwinds for EM assets, outlining our approach to investing in EM equity markets, and, finally, providing our takeaways from recent extensive discussions with EM equity portfolio managers.

Performance Volatility is Emblematic

On the next page, Chart I illustrates the long-term outperformance of the MSCI Emerging Market Index, which covers 85% of liquid, publicly-traded equity markets across 23 EM countries, relative to the S&P 500® Index. Over the most recent trailing 1-year, 3-year, and 5-year periods ended June 27th 2016, the MSCI Emerging Markets Index has delivered negative annualized returns of -12.06%, -1.56%, and -3.78%, respectively. Despite lackluster near-term performance, EM equities have exhibited strong outperformance since 2001, delivering annualized total returns of +9.12% on a trailing 15-year basis vs. +5.75% for the S&P 500® Index, as can be seen in the index-level performance data provided in Table I on the next page.

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Wealth Advisory Overview

Long Term Care Policy Options

A Long-Term Care ("LTC") insurance policy covers the insured for a chronic illness. For benefits to be paid, a physician or licensed health care provider would need to certify that the insured needs to have substantial supervision due to cognitive impairment (such as Alzheimer's), or is unable to perform at least two of the six activities of daily living which include:

- Bathing
- Continence (control of bladder and bowel functions)
- Dressing
- Eating
- Toileting (including general personal hygiene)
- Transferring (moving from a bed, chair or wheelchair)

Why is coverage needed?

Research shows that up to 70% of individuals 65 and older will need some form of long-term care. While Medicaid is available to help those with limited resources cover nursing home costs, Medicare does not

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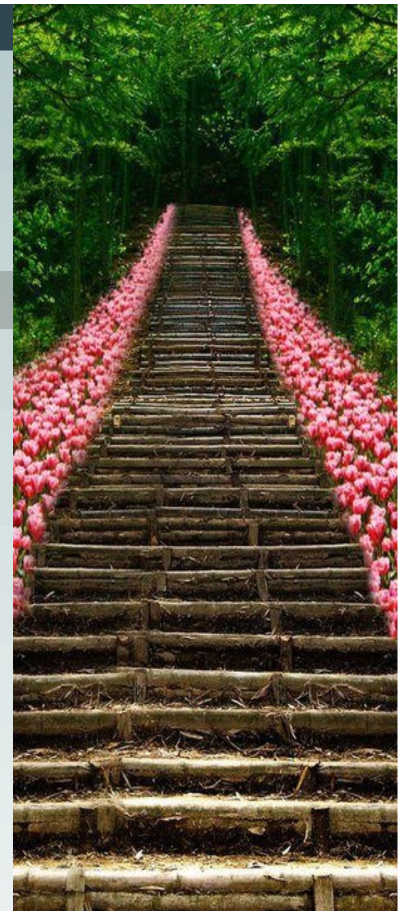

Investment Team

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Special points of interest

- Stock & Strategy Spotlight
- Monthly Index Review
- Around Rinehart

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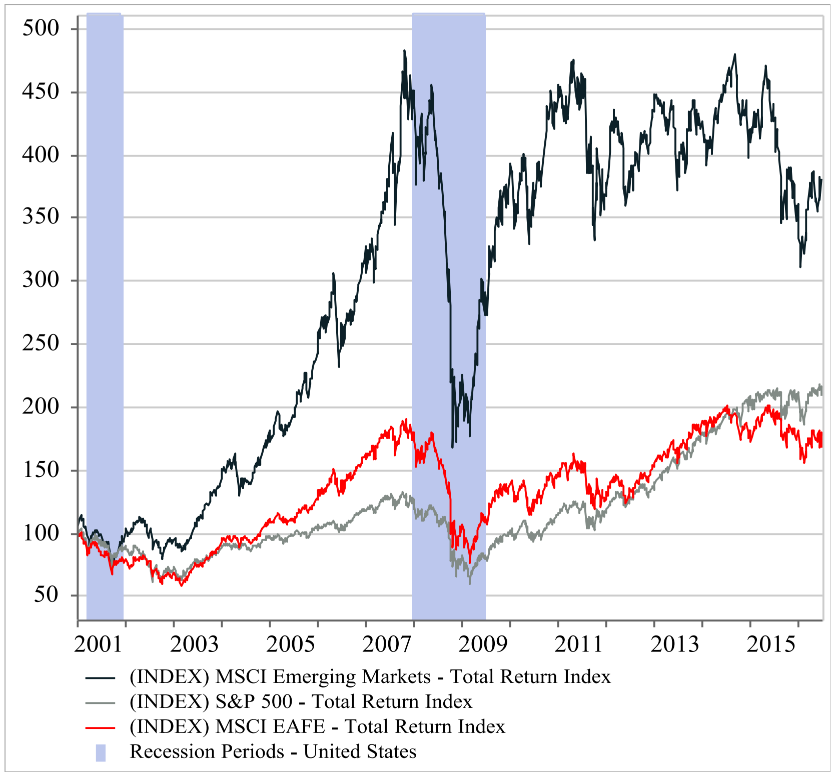
Macroeconomic Backdrop is Difficult

Over the past couple of years, EM equities have been suffering from the strengthening of the US dollar ("USD") and the concurrent deceleration in the growth rates of major EM economies, such as China and other once high-flying, commodity-intensive countries, causing pronounced underperformance in EM assets. These headwinds are the result of a stubbornly low global growth environment, despite the unprecedented efforts by central banks around the world to simultaneously stimulate growth via easy monetary policy and successive iterations of quantitative easing.

Due to the fact that the index tracks the performance of the underlying equities in terms of each holding's respective local currency ("LC"), foreign exchange rates relative to the USD have a significant currency impact upon index-level performance in USD-terms. Thus, the strengthening of the USD relative to EM currencies creates a headwind to EM equity performance.

Chart I: MSCI Emerging Market Index



Source: FactSet Research Systems, Inc.

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Table I: Trailing Annualized Index Performance (USD Total Return)

Index	1-Year	3-Year	5-Year	10-Year	15-Year
S&P 500	**+3.99%**	**+11.66%**	**+12.10%**	**+7.42%**	+5.75%
MSCI Emerging Markets	-12.06%	-1.56%	-3.78%	+3.54%	**+9.12%**
MSCI EAFE	-10.16%	+2.06%	+1.68%	+1.58%	+4.32%

Source: FactSet Research Systems, Inc.

Monthly Index Review (USD Total Return)

Data as of June 30th 2016	June 2016	2016 YTD	2015	2014
S&P 500	+0.13%	+3.84%	+1.38%	+13.69%
Dow Jones Industrial Average	+0.93%	+4.31%	+0.21%	+10.04%
NASDAQ Composite	-2.15%	-2.66%	**+6.96%**	**+14.75%**
Russell 2000	-0.78%	+2.22%	-4.41%	+4.89%
MSCI Emerging Markets	**+4.12%**	**+6.60%**	**-14.60%**	-1.82%
MSCI EAFE	**-2.85%**	**-4.04%**	-0.39%	**-4.48%**
Barclays US Aggregate	+1.85%	+5.31%	+0.55%	+5.97%

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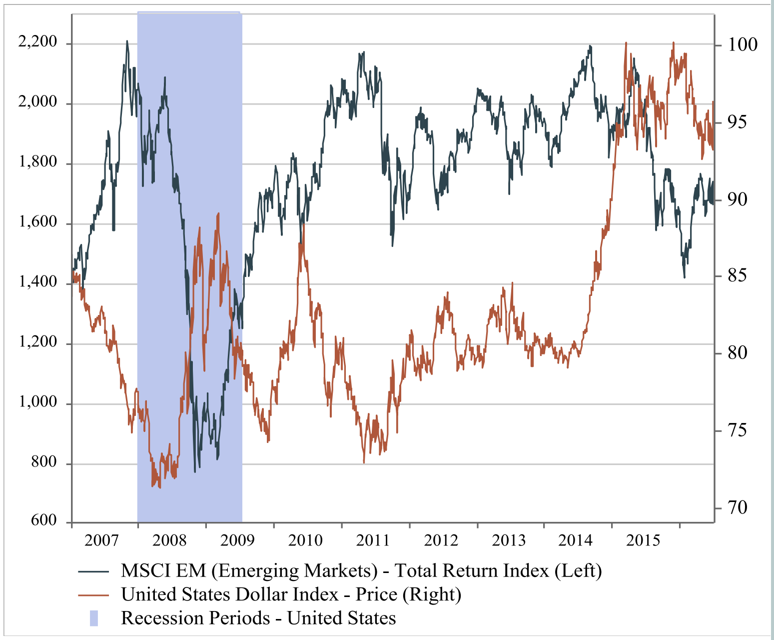
Chart II: MSCI Emerging Market Index vs. USD



Source: FactSet Research Systems, Inc.

Chart II illustrates this inverse relationship between the MSCI Emerging Markets Index and the USD. This evident link exists because countries that issue substantial amounts of USD-denominated debt to fuel economic growth and are faced with tighter credit market conditions and higher-cost debt obligations due to the dramatic appreciation of the USD over the past two years.

Furthermore, EM countries primarily dependent on commodity exports have suffered from the rapid collapse in commodity prices and their respective currencies, while those EM countries with exposure to China have been pulled down in sympathy with the increasing concerns over the implications of diminishing economic growth in China.

Long-Term Tailwinds

Despite the pervasive negative sentiment surrounding EM equities, attractive relative and absolute valuations and long-term tailwinds support continued exposure to this much-beleaguered asset class. Compared to Developed Market ("DM") economies, EM countries are increasingly likely to benefit from secular growth drivers, such as favorable demographics and a burgeoning middle class.

In general, EM and frontier market ("FM") populations are experiencing healthier long-term trends compared to more mature economies. Over the past 15 years, annual population growth for EM has averaged +1.03% vs. +0.66% for DM, while annual labor force growth for EM has averaged +2.33% vs. +0.60% for DM (*Source: FactSet Research Systems, Inc.*). Given these trends, it is unlikely that EM economies will face the same fiscal drag associated with an aging population (e.g., diminishing labor force, pension liability shortfalls, etc.) that DM are currently facing.

Healthy population demographics in EM and FM economies should drive outsized increases in consumer demand from an expanding middle class. According to the most recent *World Economic Outlook* published by the International Monetary Fund ("IMF") in April 2016, output from EM and developing economies is projected to grow +4.1% and +4.6% in 2016 and 2017, respectively, while output from advanced economies over that same time is only projected to grow +1.0% and +2.0% (*Source: IMF 2016*). Accordingly, to drive long-term capital growth, a measured allocation to EM within a diversified investment portfolio appears essential when looking at these relative economic growth projections.

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About Rinehart

Rinehart Wealth & Investment Advisory is an experienced, boutique Registered Investment Advisor dedicated to independent, comprehensive wealth management. Founded in 1985 by Mary Rinehart, the firm, from its inception, has had a singular focus: to provide highly customized investment management and financial planning solutions to clients.

Boutique Firm:

Being a boutique wealth management firm allows us the flexibility to provide more personalized service and offer unique investment solutions to clients in a Fee-Only environment.

Team Approach:

Because each client's situation is different, the team of advisors is hand-selected to ensure areas of expertise are appropriately aligned with the client's specific needs and interests.

Proprietary Investment Research:

The differentiating factor of our portfolio management process is the proprietary investment research driving the portfolio construction. All investment research and analysis is done entirely in-house by our Investment Team.

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Our Approach to Investing in Emerging Markets

RWIA maintains a tactical 40% allocation to EM as part of an investment portfolio's long-term, strategic allocation International Equity - this can represent from as little as 4.00% to as much as 12.40% of a given portfolio, depending on the portfolio's strategic asset allocation.

The Investment Team believes that good active management can have a dramatically positive affect on International Equity portfolios relative to passive investments because EM equity markets are inefficient, the construction of the index is flawed, and active management in EM equities has a demonstrable ability and proven track record of generating positive risk-adjusted returns (i.e., alpha) in EM equities. For example, the portfolio managers we interviewed have all outperformed the benchmark on an annualized basis over the trailing 12-month and trailing 3-year periods by an average of +870 and +450 basis points ("bps"), respectively.

This degree of outperformance should not be possible in an efficient market, leading us to investigate the dynamics of EM investing and the index composition. As evidenced by the considerable outperformance by active managers, we believe the EM asset class to be inefficient, with the opportunity for good managers to outperform the passive index.

As a reminder, an efficient market is one in which market and security prices fully, accurately, and instantaneously incorporate all available information *(Source: CFA Institute)*. Where appropriate, RWIA prefers to use passively-managed, index-based strategies to gain *broad* exposure to efficient, high-quality markets with representative indexes, such as large- and mid-cap US equities. Conversely, we rely on active management to gain *targeted* exposure to inefficient markets, such as EM, wherein we feel high-quality active management has a higher probability of alpha relative to the underlying index.

In general, EM financial markets suffer from structural inefficiencies due to various factors, such as unpredictable liquidity, inconsistent infrastructure, and informational asymmetries (e.g., buyers/sellers with unequal access to financial information transacting in a common market). As a result, market-based prices of individual securities can deviate significantly from the intrinsic value of the underlying securities for extended periods of time. This creates a unique opportunity for disciplined, fundamental active management to intervene and take advantage of mispriced securities trading at attractive valuations. Active management's insight into local markets and ability to trade directly on local EM exchanges is critical to successfully capitalizing on these pricing and valuation inefficiencies.

Moreover, widely-used EM equity indexes reflect certain biases in their construction and composition, which, when taken into consideration with the relative inefficiencies of EM financial markets, may not provide a true or comprehensive representation of the EM investment universe. As of May 31st 2016, equities from just three of the 23 countries included in the MSCI Emerging Markets Index accounted for 52.01% of the total index: China (24.36%), South Korea (15.30%), and Taiwan (12.35%). Also, the top ten constituents in the index represented 19.55% of the total index, with an average market capitalization of approximately $68.54 billion. Given the high degree of country-level and market capitalization concentration across the underlying holdings, a significant portion of the index's risk and return is dictated by size factors and country-specific exposures. Active management is able to take advantage of these inherent biases by investing along the entire market capitalization and geographic spectrum, adjusting a portfolio's regional or country-specific exposure based on the fundamental outlook for that particular region or country.

For example, about three years ago, the RWIA Investment Team had serious concerns about China due to the disconcerting signs of a market bubble with slowing economic growth. We believed that the majority of passively-managed, index-following investments had excessive exposure to China due to China's published 25% presence in the underlying index. This led us to research, and eventually hire, an actively-managed EM equity investment strategy with little to no underlying exposure to Chinese equity markets, while simultaneously eliminating exposure to passive EM equity exchange-traded funds ("ETFs") from investment portfolios.

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Takeaways from Recent Discussions with Portfolio Managers

Within actively-managed strategies, we look for portfolio managers with common characteristics, such as: those utilizing fundamental, bottom-up investment analysis; those who are benchmark agnostic relative to their respective passive index; and those who understand the importance of evaluating and assessing control parties.

Over the past several weeks, the Investment Team has conducted in-depth due diligence on several EM equity strategies to identify talented managers to add to our EM investment platform. Several portfolio managers, despite the negative market sentiment, remain optimistic about their ability to take advantage of the aforementioned inefficiencies and identify high-quality investment opportunities at attractive valuations when they sell off irrationally on misinformation or sentiment-driven illiquidity.

As part of their research and analysis processes, several of the portfolio managers we spoke to emphasized the importance of understanding the role of control parties when investing in EM companies: for example, avoiding government-controlled companies, while also investing in companies with long-term, mutually-beneficial family ownership. It is critical to evaluate the respective control party's attitude and treatment of minority stakeholders, as well as the control party's behavior as it relates to the company's financial performance throughout multiple business cycles, in order to determine the relative value of investing alongside that control party.

We have highlighted two of these managers in our "Stock & Strategy Spotlight" below and will look to be opportunistic as we rotate out of our current Wasatch Funds holdings due to the recent unexpected departure of a key member of the portfolio management team at Wasatch Funds.

Stock & Strategy Spotlight

Name	Ticker	2016 YTD
Seafarer Growth & Income Fund Inst.	SIGIX	**+10.90%**
Henderson Emerging Market Opportunities Fund	HEMIX	**+10.52%**

Description & Investment Thesis

In light of recent changes in the portfolio management team at Wasatch Funds, the Investment Team has decided to rotate out of positions in both the Wasatch Emerging Markets Small Cap Fund and the Wasatch Frontier Emerging Small Countries Fund across investment portfolios. The Investment Team took this as an opportunity to research other EM equity mutual funds and interview portfolio managers, and, after careful analysis and much deliberation, we have decided to add both the Seafarer Growth & Income Fund ("SIGIX") and the Henderson Emerging Market Opportunities Fund ("HEMIX") to our firm-wide Mutual Fund & ETF Buy List. After speaking with members of both portfolio management teams and comparing them to other managers, we believe that the investment styles and underlying strategies of both funds align with and are reflective of own in-house investment philosophy, emphasizing company-specific research and bottom-up, fundamental analysis. In particular, both teams believe in constructing high-conviction portfolios by investing in individual, high-quality companies with healthy balance sheets, strong cash-based earnings, and durable business models capable of withstanding cyclical downturns. The Investment Team continues to believe that the ability of active management to successfully identify and invest in attractive opportunities outside of passive indexes is critical to delivering positive risk-adjusted returns due to the aforementioned structural inefficacies of EM indexes. As the Investment Team continues to monitor the persistently elevated volatility across EM equity markets, we will take advantage of tactical opportunities to rotate out of existing positions in both Wasatch funds, while initiating strategic, long-term positions in both SIGIX and HEMIX.

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Wealth Advisory Overview

Long Term Care Policy Options

pay for this type of care. According to a survey conducted by MetLife, 2012 LTC costs in the US ranged from $70 per day ($25,550 per year) for less-involved adult daytime assistance to $248 per day ($90,520 per year) for nursing home care. Additionally, health care costs are increasing at a higher rate than inflation, generally 5% to 6% annually. While 72% of nursing home residents are female, the average stay is 30 months or 2.5 years with the cost of care ranging from $100,000 to $500,000.

What ar my choices?

Currently, there are two LTC options: a traditional LTC policy, and a combination policy which combines LTC coverage with a universal life-insurance policy.

Traditional or "stand-alone" LTC insurance products. These were the original policies offered to cover LTC risks. Think of this policy like auto or homeowners insurance. It is important to have for risk management purposes. If you have an incident with your home or car, you make a claim and recover some or all of your loss. Similarly, if you have a stand-alone LTC policy and a LTC need, you make a claim and receive a benefit.

Advantages:

- Provides a greater LTC benefit for premiums paid.
- Premium payments are tax deductible.
- Benefit payments are tax-free.

Disadvantages:

- Premium increases may be passed down from carriers due to claims experience.
- Possibility that no benefit is received for the premium payments made. This is sometimes called a "use it or lose it" style of benefit. You could pay the premium for many years, yet never actually receive the LTC benefit if you do not qualify before the end of life.

Combination or "hybrid" Policies. Due to the risk of not using a stand-alone policy, the market has demanded optional products. Thus, insurance companies have responded with "combination" policies that combine LTC and life insurance. They are cash-value life insurance policies that use a portion of the policy for LTC benefits, if necessary, and keep the rest as a death benefit.

Advantages:

- Benefit payments are tax-free.
- A life insurance benefit is provided to beneficiaries if LTC is not used. To the extent that the insured needs LTC benefits during their lifetime, those benefits will be available by reducing the death benefit dollar for dollar.
- No future premium increases.

Disadvantages:

- Higher upfront investment in the form of a single premium or a fixed premium term.
- Premiums are not tax deductible.
- Two layers of fees. Because these policies offer two forms of insurance, they assess mortality charges for the insurance portion, as well as morbidity charges for LTC.

Clients may consider LTC or combination policies at any point. Most often, these policies become a serious planning consideration around age 55. Although consideration can occur later, premiums will vary with age, medical classification, policy size, and policy benefits.

Individuals who already have permanent life insurance policies may consider using the cash value in an existing policy to fund a new policy that offers both life and LTC benefits. This can be accomplished through a tax-free transfer of the existing cash value into a new policy via a 1035 exchange. Please contact your Rinehart Wealth Advisor for a detailed policy review and assistance with understanding which option might be best for you.

"The time to buy securities is when the media is so full of doom and gloom that your trembling hand can barely hold the telephone to call your broker with a buy order."

James Michaels

CONGRATULATIONS TO RINEHART'S LEAH MAYBRY

Rinehart's tax and financial consultant Leah Maybry recently added to her many accomplishments by securing her Series 65 license. Leah founded Maybry McShane Family Offices, LLC with Rinehart Wealth Management in November 2015 and serves as President and Senior Family Wealth Advisor. She brings over 18 years of accounting and tax planning experience to clients and our firm—Go Leah!

ECONOMIC OVERVIEW LUNCHEONS

Rinehart 's CEO and Chief Investment Officer Daniele Donahoe recently hosted a series of Economic Overview Luncheon for clients and CPAs where she shared her thoughts on economic trends and looked ahead to the anticipated business climate for the remainder of 2016. If interested in attending a future Economic Overview luncheon, please email Cynthia Sims at csims@rinehartwealthmanagement.com.

FREEDOM SCHOOL

The Rinehart team is volunteering July 12th at the Rama Road Elementary book fair. They will help over 60 scholars choose books appropriate for their reading level. "Working with children in Charlotte who most need but can least afford summer literacy opportunities is a wonderful way to connect with and have a direct and positive impact on our community," stated Rinehart's President Sandy Carlson.

RINEHART ANNOUNCES NEW WEBSITE LAUNCH

Be on the lookout for our newly redesigned website **www.rinehartwia.com.** The new site will launch Friday, July 8th and will provide an improved access point to enhanced online resources for both visitors and clients. Staying true to the firm's values, the site includes rich and informative content presented in an easy-to-read format. Structured for hassle-free navigation, the updated website provides clients and visitors with a clean, appealing design, enhancing user experience and navigation as well as highlights our talented team and growing level of expertise.

Happy July 4th From Our Family To Yours!

Rinehart Wealth & Investment Advisory

Wealth management is our only business; therefore, our attention is undivided and our intentions are transparent.

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